Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

~~CONFIDENTIAL~~ ~~SECRET~~ (Declassified 5/25/47)

COPY NO. 82
FOR THE ASSISTANT DIRECTOR
FOR REPORTS AND ESTIMATES

40443

THE CURRENT SITUATION IN CHINA

ORE 45-48

Published 22 July 1948

This document has been approved for release through the HISTORICAL REVIEW PROGRAM of the Central Intelligence Agency.

Date 21 Jul 92

HRP 92-1

Document No. 001
NO CHANGE in Class. ☐
☒ DECLASSIFIED
Class. CHANGED TO: TS S C
DDA Memo 4 Apr 77
Auth: DDA REG 77/1763
Date: 16 Nov 92 By 023

CENTRAL INTELLIGENCE AGENCY

~~CONFIDENTIAL~~ ~~SECRET~~

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

WARNING

This document contains information affecting the national defense of the United States within the meaning of the Espionage Act, 50 U.S.C., 31 and 32, as amended. Its transmission or the revelation of its contents in any manner to an unauthorized person is prohibited by law.

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

DISSEMINATION NOTICE

1. This copy of this publication is for the information and use of the recipient designated on the front cover and of individuals under the jurisdiction of the recipient's office who require the information for the performance of their official duties. Further dissemination elsewhere in the department to other offices which require the information for the performance of official duties may be authorized by the following:

a. Special Assistant to the Secretary of State for Research and Intelligence, for the Department of State

b. Director of Intelligence, GS, USA, for the Department of the Army

c. Chief, Naval Intelligence, for the Department of the Navy

d. Director of Intelligence, USAF, for the Department of the Air Force

e. Director of Security and Intelligence, AEC, for the Atomic Energy Commission

f. Deputy Director for Intelligence, Joint Staff, for the Joint Staff

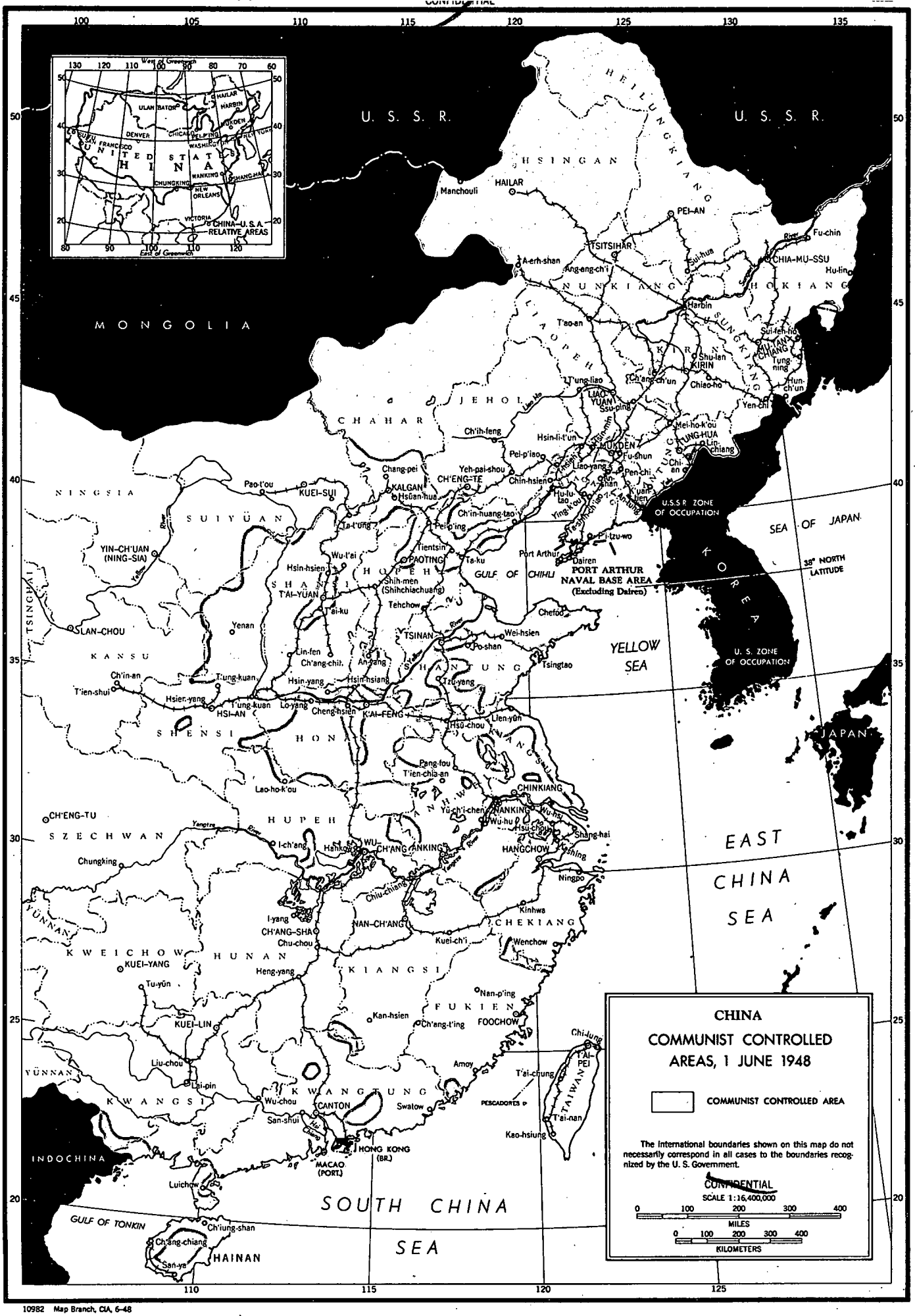
g. Assistant Director for Collection and Dissemination, CIA, for any other Department or Agency

2. This copy may be either retained or destroyed by burning in accordance with applicable security regulations, or returned to the Central Intelligence Agency by arrangement with the Office of Collection and Dissemination, CIA.

DISTRIBUTION:
Office of the President
National Security Council
National Security Resources Board
Department of State
Department of Defense
Department of the Army
Department of the Navy
Department of the Air Force
State-Army-Navy Coordinating Committee
Joint Chiefs of Staff
Atomic Energy Commission

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2



10982 Map Branch, CIA, 6-48

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

THE CURRENT SITUATION IN CHINA

SUMMARY

The position of the present National Government is so precarious that its fall may occur at any time. It is quite likely, however, that it may survive with diminishing power for some time, but soon become only one of several regimes exercising governmental powers independently in Nationalist China. Even with the current US aid program, the present National Government has little prospect of reversing or even checking these trends of disintegration. The increasing instability in Nationalist China will facilitate the extension of Chinese Communist military and political influence.

Within Nationalist China the power and prestige of Chiang Kai-shek is steadily weakening because of the unsuccessful prosecution of the war under his leadership and his apparent unwillingness and inability to accomplish positive reforms. Opposition, both within the Kuomintang and among dissident elements, centered chiefly in Hong Kong, is gathering strength. In addition, deteriorating economic conditions are exerting a cumulative impact on the political structure of the National Government. Furthermore, the military forces of the Chinese Communists have been able to seize the tactical initiative on an increasingly large scale. Even with current US assistance, it is improbable that the Nationalist Army can successfully defend all of its present territories.

In foreign relations, questions concerning the neighboring states of Japan and the USSR are of paramount interest to China for reasons of security. Chinese opinion favors a "hard" peace settlement with Japan so as to prevent the resurgence of that country as a Great Power. It is equally important for China to maintain correct and if possible friendly relations with the USSR, for China unaided cannot match Soviet power. Implementation of US aid to China is complicated by the question of the extent of US controls and supervision, and US insistence upon accompanying economic, political, and military reforms. The USSR thus far has refrained from overt material assistance to the Chinese Communists and continues to recognize the National Government, but it is apparent, nevertheless, that Soviet sympathies lie with the Chinese Communists. Even if US aid should prove effective, this might prove to be only a temporary advantage for the National Government, since it might be offset by Soviet counter-aid to the Chinese Communists.

The prospect for the foreseeable future in China is at best an indefinite and inconclusive prolongation of the civil war, with the authority of the National Government limited to a dwindling area in Central and South China and isolated major cities in north and northeast China, and with political and economic disorder spreading throughout the country except possibly in Communist-held areas. The worst prospect is complete collapse of the National Government, and its replacement by a Chinese

Note: The information in this report is as of 11 June 1948.
The intelligence organizations of the Departments of State, Army, Navy, and the Air Force have concurred in this report.

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

Communist-controlled regime, under Soviet influence if not under Soviet control, and uncooperative toward the US if not openly hostile. The latter development would result in an extensive loss of US prestige and increased Communist influence throughout the Far East, as well as an intensification of threat to US interests in the Western Pacific area.

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

THE CURRENT SITUATION IN CHINA

1. Importance of China.

An independent China, ruled by an effective Government, would tend to promote stability in the Far East. The disorderly conditions which now prevail in China affect adversely the prospects of economic recovery and political stabilization both within that country and throughout the Far East. Moreover the instability of the National Government facilitates the extension of Communist influence throughout China, and strengthens the position of Communist groups in Korea, Japan, and the countries of Southeast Asia.

For the US, China is a potential danger area which might involve the US in an armed conflict with the USSR. A Communist victory over the National Government in the present civil conflict, resulting in Communist control over China, would seriously challenge the US position in Japan. A Communist China would facilitate the extension of Soviet influence throughout the Far East and thus present a direct threat to US security interests throughout the Pacific area.

The overriding Soviet concern in China, as in all areas adjacent to the USSR, is to make certain that China cannot be used as a base of attack against the USSR. Therefore all Soviet measures toward China are taken primarily with a view to gaining control over those parts of China adjacent to Soviet territory. In addition to the defensive and offensive importance of this area to the USSR, the economy of China's northeastern provinces is complementary to that of the Soviet Far East, and the most favorable communications from Siberia to the sea traverse Manchuria. The long-range aim of the USSR is to extend its influence over all of China through the medium of a Chinese Government both friendly to and ideologically sympathetic with the USSR.

2. Nationalist China.

a. Political Situation.

The past year in China has witnessed increasing instability in Nationalist China, and the steady advance of Chinese Communist military and political influence. The most ominous aspect of the Nanking Government's present position is the fact that the US aid program, admittedly a "holding action" at best, is practically the only positive factor promoting the stability of the National Government.

The present Government, under the new Constitution, is essentially no different from its predecessor. Chiang Kai-shek, now first President of the Chinese Republic, has retained actually the powers he held formerly as President of the National Government. There is, however, increasing dissatisfaction with his leadership. The failure of the National Government to offer a constructive solution to military and economic problems has resulted in an increasing demand for fundamental reforms, but the deteriorating economic, political, and military situation limits the possibility of the Government taking constructive and effective action along this line. Any prospect

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

for positive reforms, therefore, appears to hinge on some slackening in the rate of disintegration. Chiang Kai-shek himself has shown no genuine inclination to take any positive measures toward reform or to reorganize his Government along more progressive lines, and even should he do so, the conservative landlord groups from which Chiang derives much of his support would hardly accept the desired reforms.

(1) *Lack of Popular Support.*

Except for the Chinese Communist Party, opposition to the National Government has been largely unorganized, lacking armed strength and therefore relatively ineffective. The Nanking Government lacks popular support among moderate and liberal groups of politically conscious Chinese. Although there is no single program to which they all subscribe, sentiment favoring a compromise peace is widespread among these groups. To many of them, Chiang Kai-shek is no longer acceptable as national leader, and they keenly resent any form of assistance, domestic or foreign, to bolster the present National Government's position and prolong its rule.

(2) *Opposition within the Kuomintang and National Government.*

Within the Kuomintang, also, dissatisfaction with the present National Government as it is now constituted under the leadership of Chiang Kai-shek has become increasingly evident in recent months. The election of Chiang Kai-shek to the presidency in April, confirmed him in his position of leadership, and is a fresh demonstration that throughout Nationalist China there is no other personality who can so effectively rally the support of the various Kuomintang factions and cliques. However, the victory of General Li Tsung-jen in the contest for the vice presidency reflected popular dissatisfaction with Chiang's failure to effect reform measures and represented a vote of protest against the ineffectiveness of his Government. General Li and his group are reportedly preparing a program for military, economic, and political reform. Moreover, Li is believed to favor the development of China along the lines of federalism with a considerable degree of provincial autonomy, in marked contrast to Chiang's insistence upon a strongly centralized government. Public statements of Li also indicate that while he is anti-Communist, he may be less averse to reopening political negotiations with the Communists than Chiang, who remains unalterably opposed to such a course. Since the terms of the constitution confer no specific powers on the vice president, General Li must seek to achieve his program by appeals to public opinion and by tactics of persuasion with Chiang Kai-shek.

If frustrated in his efforts to persuade Chiang to alter his policies, Li and his group may seek to organize a non-Communist revolutionary movement, capable eventually of bringing about Chiang's overthrow. Li probably can count on the support of General Pai Chung-hsi, his former associate in Kwangsi province, and a large segment of southern troops. If such a movement develops, it might also attract the support of the Hong Kong dissidents, who reportedly are in close contact with Li, and would probably attract the support of many within the National Government who have come to the conclusion that it is futile to hope for a favorable military solution in the civil conflict.

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

A more dangerous threat to Chiang's position, however, has developed within the Kuomintang inner circle, where certain key Party leaders from whom he has derived his strength for years, no longer appear capable of providing him with unwavering support. The nature of this rift within the Kuomintang was recently revealed in Chiang's difficulty in appointing a new premier (President of China's executive Yuan). Several prominent political figures refused the appointment because of anticipated opposition. As a compromise, Chiang appointed Wong Wen-hao, an able administrator but, owing to his lack of a political following, not a strong leader.

In addition to the internal opposition developing at Nanking, a feeling of independence is growing among Nationalist civil and military officials in North China, as a result of the inability or the unwillingness of the National Government to extend them realistic military support. Also separatist tendencies continue in various outlying provinces among warlords who maintain regimes virtually independent of Nanking.

(3) *Dissident Group in Hong Kong.*

An opposition group composed of former Kuomintang members and headed by Marshal Li Chi-shen, has organized the "Kuomintang Revolutionary Committee" with headquarters in Hong Kong. It is the plan of this group to establish in the near future a rival "provisional government" somewhere on the mainland of China, probably in the southwest. While non-Communist in sentiment, Marshal Li has announced a policy of cooperation and negotiation with the Communists with a view to seeking a political solution of the civil conflict and to forming a coalition government. The strategy of Marshal Li's policy is to gain for his government the immense popular support throughout Nationalist China that, in his opinion, would be assured any government responsible for restoring peace. This group also reportedly is in contact with Li Tsung-jen, Nationalist Vice-President and leader of a "reform" movement within the Kuomintang. Lacking military strength, it is improbable that the dissident group under Marshal Li can intervene decisively in Chinese politics except in an alliance with the Communists, or as part of a possible non-Communist revolutionary movement, uniting various discontented elements in Nationalist China.

(4) *Possible Fall of Chiang Kai-shek.*

Although the withdrawal of Chiang from the political scene in China may not be imminent, the pressure for his removal is steadily increasing and will continue to do so as long as the National Government under his leadership shows no greater capability in coping with its military and economic problems. The departure of Chiang, for whatever cause, would probably be followed by accelerated disintegration of the Kuomintang and National Government. The Chinese Communists would exploit such conditions and would derive the initial advantages. While the removal of Chiang's dominating personality would open the way for the formation of a broadly representative government under new and progressive non-Communist leadership, the availability of such leadership, as well as its capabilities, remains questionable.

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

b. Economic Situation.

Deterioration in the National Government's economic position, as measured by note issue, commodity prices, and black market exchange rates for foreign currencies, has been accelerating at an ominous rate. Since the first of the year, currency outstanding, exclusive of issues in Manchuria and Taiwan, has increased more than 260%, the price of rice has increased 480%, and US dollars on the Shanghai black market have increased 670% in terms of Chinese National currency. The budget for the first six months of 1948 estimated at CN $96 trillion has proved inadequate. The budget for the second half of 1948 is estimated at CN $200 trillion.

The wholesale price of rice in Shanghai, a yardstick for measuring the domestic purchasing power of the National currency, has continued to increase at a faster rate than the amount of currency in circulation as a result of the Government's attempt to compensate for the declining value of the Chinese dollar by issuing more and more paper money. Thus, the price of rice was 14 times higher at the end of 1947 than at the end of 1946, while outstanding note issue increased by 9 times in this period. The estimated CN $120 trillion outstanding on 31 May 1948 had a purchasing power 25% less than the CN $40.9 trillion outstanding at the end of January 1948 and 38 percent less than the CN $33.2 trillion outstanding at the end of December 1947.*

Industrial production, in general, has been at a low level since the end of the war. The cotton textile industry experienced a marked recovery from the effects of the war with Japan, but even in 1947, output was still below prewar production levels. The problems of government controls, the difficulties of obtaining raw materials, and the risks caused by the spiralling inflation have made the task of conducting any kind of productive private enterprise almost insurmountable. The widespread feeling of uncertainty now prevalent in Nationalist cities has recently caused a further decline in industrial production. In some areas, such as Shanghai, plants are being removed to Hong Kong, thereby depriving the National Government of much needed manufactured goods. Agricultural output in Nationalist areas, however, is generally at prewar levels.

China's imports for the first four months of 1948 are recorded at US $91 million; exports during this period were only two-thirds of imports. The monthly trade deficit has increased from US $3.2 million in January 1948 and US $1.7 for February, to US $15 million in March and US $8.2 million for April. A new exchange link system was inaugurated 31 May 1948, chiefly to stimulate exports and provide badly needed foreign exchange for imports. Reaction to the new system by exporters and importers is generally favorable, but cautious. Exports, however, increased only slightly by the end of June 1948.

The deterioration in the Government's economic position reflects the general lack of confidence with respect to the Nationalist Army's ability to contain the Communist military forces. A single major military defeat sustained by the National Government might create such an over-all feeling of despair with respect to the future

* "Purchasing power" is based on the wholesale price of rice in Shanghai which is somewhat lower than the general commodity price level.

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

of the Government as to result in a general refusal to honor the Chinese dollar as a medium of exchange. Reportedly, there have already been many instances where barter rather than the exchange of goods for money has occurred. In some sections of South China, commodity prices are quoted in Hong Kong dollars instead of the Chinese National currency.

The US aid program is the only factor now in evidence which may possibly retard the accelerating deterioration in the Government's financial position and postpone a complete monetary collapse, though to date the passage of the aid bill has had no noticeable effect on prices or on the black market foreign exchange rate. This reflects the fact that controlling elements in Chinese financial circles have substantially discounted the effectiveness of US aid.

The repudiation of the National currency would cause economic and political chaos in urban areas and have serious implications with respect to the National Government's military effort. The Government's ability to maintain its armies in the field would be jeopardized and the probability of an early military and political defeat would be increased.

There is no evidence that the Government can cope with mounting inflationary pressures. The apparent inability of the National Government to stave off the approaching collapse of its financial structure is due in part, at least, to its preoccupation with the even more pressing military and political problems.

c. Military Situation.

Since mid-1947, when the Nationalist Army was forced on the defensive, the admitted advantage which the Nationalist Army held over the Communists in 1945-46 has been gradually reduced to the point of parity, and in some areas both initiative and advantage have passed to the Communist forces. In view of the declining capabilities of the Nationalist Army, the military pressure of the Communists in Central, North, and Northeast China will probably further reduce Nationalist-controlled sectors of these areas.

(1) *Personnel and Intelligence.*

On 1 March 1948 the tactical troop strength in the Nationalist Army was estimated to be approximately 2,200,000. These regular units are supplemented by about 500,000 service troops and by about 500,000 additional provincial troops of varied combat capabilities. In addition, Nationalist Ground Forces are bolstered by a small Navy and Air Force which, being unopposed, achieve a tactical and strategic importance beyond their numerical strength. The entire Nationalist military establishment is plagued, however, by glaring structural and command weaknesses. Two and a half years of combat attrition has greatly reduced the percentage of trained fighting men in its tactical units, while combat and temporal attrition has reduced the numbers and effectiveness of its weapons and transport. Moreover, the Nationalist Army has largely exhausted its manpower reserve by unrealistic extensive garrison commitments. Enlistment and conscription programs, the latter all too often marked by vicious press gang methods, have failed to net the recruits necessary for adequate field replacements.

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

Training of Nationalist recruits has been deficient and the leadership has been incompetent, and saturated with graft.

Among the most serious deficiencies in the Nationalist military establishment is the lack of a well conceived and executed indoctrination program and the marked absence of beneficial understanding between officers and their troops. As a result morale is extremely low, approaching defeatism in areas where the Communist threat is the greatest. Then too, Nationalist intelligence has been generally ineffective and often in error regarding Communist capabilities as well as intentions. Consequently, the Nationalist Army is repeatedly caught off balance, with the result that it often sustains serious losses which would otherwise have been avoidable.

(2) *Logistics.*

Weapons and equipment in the Nationalist Army are characterized by their heterogeneity: the products of various European, American, and Chinese arsenals. Largely because of their US equipment, which includes air and naval arms, the Nationalists have enjoyed an advantage in fire power. The Nationalists also have a slight edge over the Communists in arsenal capacity, but lengthy transportation lines, shortages of all types of transport vehicles, and constant and extensive Communist depredations in the northern areas have created extremely complex and practically insoluble logistic problems for the Nationalists. As a consequence, they consistently find their operational potentialities curtailed by deficiencies in fighting matériel at the fronts.

(3) *Tactics and Strategy.*

With initial advantages in numbers and fire power, the Nationalists set about to capture the major cities of North China and Manchuria and to open the main overland routes of communications. In this they attempted to employ orthodox tactics of offense, but, lacking adequate industrial and transport support and competent generalship, they were singularly unsuccessful; during the past year, they have largely been reduced to a defensive role. The Nationalists employ a static defense of fixed points, holding up within prepared defenses and passively awaiting Communist attacks. Possessing more modern arms and an air force, the Nationalists have been able to concentrate at strategically vital points (i.e., Mukden) and have thus far deterred the Communists from undertaking all-out assaults on such points. By controlling the most important railroad junctions, the Nationalists have thus denied the Communists through traffic on these lines.

A shift in Nationalist strategic concepts has been apparent since March 1948, when the Nationalists began to demonstrate a new willingness to evacuate points "lacking in strategic importance." The old Communist capital of Yenan, Kirin in Manchuria, most of the coastal towns on the north shore of the Shantung peninsula, and Tolun in Chahar have already been abandoned. Previously, the Nationalists had long refused to undertake even tactically salutary withdrawals. That they should do so, now probably reflects a growing realization among National Government leaders of their very real limitations in resources.

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

(4) *Operations.*

Because Nationalist tactics generally follow a pattern of static defense, the Communists are able to choose the time and place of battles. From time to time Nationalist leaders present plans for broad offensives but since the conclusion of the Shantung Campaign in October 1947, Nationalist action has been limited to counter-offensives of a local nature. Every indication is that this course of events will continue; the Nationalists' ability to undertake even local actions will be gradually and progressively curtailed.

d. Foreign Relations.

The foreign relations of the National Government are dominated by issues concerning the US and the USSR. The passage in April of the China aid bill ended uncertainty as to whether the US would support the National Government, but the question remains as to whether such support will be continued and if so, in what amount. Implementation of US aid to China is also complicated by the question of US controls and supervision, and US insistence upon accompanying economic, political, and military reforms. Anti-US sentiment, which is already apparent, may be further aggravated by Chinese elements interested in diverting present unrest and discontent into anti-foreign manifestations. In addition, there is a difference of view between the US and China on the Japanese peace settlement. Nationalist officials have voiced qualified approval of the US rehabilitation program for Japan, but Chinese sentiment, as expressed in the press, in student demonstrations, and in resolutions in the popularly elected National Assembly and Legislative Yuan, is apprehensive of US policy and fears a consequent resurgence of Japanese military and economic power.

The USSR represents the chief threat to the security interests of the National Government because of its long-standing ambitions concerning China's northern border regions and because of its moral, if not material, support of the Chinese Communists. Nevertheless, the USSR at present maintains outwardly correct relations with Nanking, and the Treaty of 1945, designed to settle outstanding issues, remains in effect as the basis of Sino-Soviet relations.

With the arrival in May of Soviet Ambassador Roshchin, terminating a year long period during which there was no Soviet Ambassador at Nanking, it is possible that the USSR will play a more positive role in Chinese affairs. General Roshchin may renew talks with Chinese officials regarding a compromise settlement of the civil conflicts, offer Soviet mediation and undertake to resolve the current impasse in Sinkiang. Regardless of these possible developments, the USSR may extend covert support to the Chinese Communist Party and to racial groups in China's border areas who oppose Chinese control. Until final ratification of a peace treaty with Japan, all attempts to loosen the Soviet grip on Dairen will be met with the legalistic argument that the USSR is authorized to control that area so long as a state of war with Japan exists.

The Chinese National Government is not satisfied with the present state of Sino-Soviet relations, and the Chinese Foreign Minister has publicly called attention to

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

Soviet nonobservance of the Sino-Soviet Treaty. Nevertheless, it is the consistent policy of the National Government to abide by that Treaty and to avoid doing anything which might aggravate Sino-Soviet relations. China probably will not adopt a firmer attitude unless the US offers China assurance of effective support vis-á-vis the USSR.

3. COMMUNIST CHINA.

a. Political Situation.

The Chinese Communist Party is stronger now than ever before in its history, its military control extending over approximately one-fifth the total area and one-fourth the total population of China. The territory dominated by the Communists included practically all of Manchuria and large sections of China, north of the Yangtze River, with the exception of major cities. Political and economic consolidation of power, nonetheless, appears to lag behind military successes: the Chinese Communists have no government on a national scale, but continue to administer their areas through the Party machinery and by Border Region and Liberated Area Governments, which vary in complexity in direct proportion to the stability of the area. The Communist force, several thousand strong, remains unsubdued in the south, mainly on Hainan Island, and sizeable underground forces exist in most of the large cities of Nationalist China.

The Chinese Communist Party, which now claims a membership of over 3,000,000, is the world's largest Communist movement outside the USSR and the only one which over the years had demonstrated sufficient strength to survive and expand without Soviet assistance. With practically all of Manchuria under its control, the Communist Party now holds an area of China, fairly rich in natural resources and potentialities for industrial development. The basis for the Party's strength in China is its program of long-needed agrarian reforms, which has a great appeal to the impoverished peasantry; its apparent unity of purpose; and its politically astute indoctrination and treatment of the troops. Perhaps its greatest strength, however, comes from the general disillusionment of the Chinese people with the corruption and misgovernment of the Kuomintang.

The weakness of the Communist Party lies in the general anti-Communist feeling of the Chinese people arising from the early days of Communist excesses in China and the many years of anti-Communist propaganda in the Chinese press; the war-induced necessity of heavy requisitions; and the crude and ruthless execution of land confiscation and taxation in certain areas. Also, it is improbable that the Party yet has sufficient administrative and technical personnel for organization and administration of complex urban areas.

A Communist political offensive is underway at present to remedy these shortcomings and at the same time to undermine the support of the National Government. Recent directives of Communist leaders indicate a broadening of policy in order to attract elements of the population who are dissatisfied with the National Government, but heretofore have feared persecution under Communist rule. Warnings against the use of brutality and excessive severity in carrying out Communist policies have been

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

issued from Communist headquarters. Communist leaders have attempted to appeal to the middle classes of the cities, petty landowners, and intellectuals by promises of fair treatment, moderate property confiscation, and leniency in considering former class demarcations. In addition, the Party has moved to accelerate deterioration in Nationalist areas by taking advantage of student and labor unrest.

Thus far the Party has steadfastly refused to enter into negotiations with a National Government ruled by Chiang Kai-shek and his supporters. It appears to favor continuation of hostilities against Chiang's Government, with the expectation that economic deterioration in Nationalist China, military attrition in the Kuomintang armies, and Communist territorial gains in Manchuria and North China, will cause the National Government to disintegrate or compel that Government to negotiate for peace on terms favorable to the Communists. The possibility exists, however, that the Party might be willing to negotiate with a National Government headed by some one other than Chiang Kai-shek. If it appeared expedient, the Party might consider a truce agreement which would recognize their control over areas now held, and permit Communist consolidation and organization of these areas. The Communists continue to maintain that they favor a coalition government composed of Communists and members of minor parties and independents, with the possible inclusion of Kuomintang moderates, but they intend eventually to dominate any coalition in which they participate.

Existing trends point toward a Communist-dominated China, but even if there is no alteration in these trends, it may be many years before that goal is reached. The Communists may gain control of the Chinese Government more quickly if conditions deteriorate to the point where the Communists can attain their ends through peace negotiations on terms which would require virtual surrender on the part of the National Government. As long as the National Government maintains any armed resistance, however, the Communists will have to assume control through military means. In that case they will be faced with the problem of consolidating administration over areas as they come under Communist power. Considering the heterogeneous composition of China, the formation of an effective Communist government for the entire country probably would be a slow process.

b. Economic Situation.

The economy of the Chinese Communists is based chiefly on self-containment and therefore is not dependent upon external assets and foreign trade on a scale comparable with Nationalist China. The Communists have been forced to keep consumer demands on a simple level; and through rationing and extensive economic controls they are attempting to supply the people and the army with food, clothing, munitions, and bare necessities. Some commodities are received from Nationalist areas and from barter trade with the USSR. The Communists trade foodstuffs, mainly various grains and beans, for Soviet-manufactured goods such as agricultural machinery, cloth, cigarettes, and gasoline.

Communist government units in border regions and liberated areas are largely financed in kind. Commercial transactions and capital investments are usually reck-

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

oned in terms of local standard grain, such as millet, although some currency is printed to finance expenditures of the various branches of the government. In terms of the CN dollar the Communist dollar is at a premium, and worth about CN $5 to 1 on the black market in border areas.

Although the Communists have acquired a considerable amount of additional territory as a result of recent military successes, the possibilities of exploiting these areas are limited by the Nationalist occupation of key industrial centers and important transportation terminal points in North China and Manchuria.

c. Military Situation.

The Communist Army appears to be gradually transforming itself from a guerrilla-type organization into a more orthodox military machine. Originally an organization fighting small-scale, isolated battles and retreating before superior force, it is now capable of carrying the fight to the enemy and engaging in actions over broad areas and over considerable periods of time.

(1) *Personnel and Intelligence.*

On 1 March 1948, the Communist military force consisted of approximately 1,150,000 regulars which are from time to time bolstered by forces of irregulars, pressed into active service when and if the local situation demands. In the past the Communists have been able to recruit new men (by both moral and physical pressures) as quickly as they are able to feed and equip them. Irregular forces provide trained personnel familiar with Communist methods. A growing tendency of defection from Nationalist units provides the Communists with manpower of limited numbers and utility. Communist morale is markedly superior to that of the Nationalists as the result of a cleverly conceived and continuing propaganda campaign. Officers in the Communist forces are said to be chosen and advanced strictly upon field-tested merit, and leadership has been able, honest, and on good terms with the troops.

As a result of their vigorous propaganda and land redistribution, the Communist forces have attracted considerable support from the poorer Chinese peasants who feed and help clothe the Communist Army as well as provide replacements for it. In addition, these peasants furnish extremely valuable local intelligence which enables the Communists repeatedly to surprise Nationalist garrisons, to hit only the more lightly defended points, and to ambush Nationalist troops while in transit. The Communists also employ a fairly extensive fifth column, which provides valuable advance intelligence while engaging in political propaganda activities.

(2) *Logistics.*

Weapons and equipment of the Communist forces were acquired primarily from Japanese Army stocks in Manchuria and North China during and subsequent to World War II. During the past two years, the Communists have supplemented this by capturing considerable Nationalist matériel, including US-type equipment. Consequently, Communist matériel reflects the same heterogeneity as does the Nationalists'. The Communists, however, limit their actions to the realities of their logistic difficulties.

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

(3) *Tactics and Strategy.*

The Communists, by a realistic appraisal of their own limitations in manpower, weapons, and industrial backing, early formulated a strategic pattern, based on guerrilla tactics, which has enabled them to realize the maximum results with available resources. The strategy, in its early stages, aims at impeding the government's efforts whenever and wherever feasible. Depredations against lines of communications, isolation of entire active areas to prevent mutual support, and encirclement of Nationalist-held urban areas to throttle the flow of farm produce and raw materials are economic in design. Militarily designed are the Communists' efforts to draw Nationalist forces into extended, vulnerable salients (i.e., Manchuria), there to pin down and destroy individual units. Refusal to join pitched battles except when and where they have achieved a superiority in men and matériel has to a great extent negated the Nationalist advantage in fire power. Mao Tse-tung has enjoined Communist forces that, before any battle is begun, their strength should be double, triple, quadruple, even five or six times that of the enemy. While this tactical pattern has conserved and built up Communist units, it has also permitted the Nationalists to retain their hold on large and important cities situated in areas where the countryside has been overrun by the Communists. Over an extended period, however, the Communists in this way gradually build up their forces until they are sufficiently strong to challenge the Nationalists' hold on even such places.

(4) *Operations.*

Communist advantage has been most strikingly demonstrated in Manchuria, where the Communist Army, in midwinter, sustained a 14-week offensive (the longest to that point), completed the encirclement of Mukden, and annihilated some seven key Nationalist divisions. Since the termination of this offensive in March 1948, the Nationalists have demonstratedly lacked the strength to reopen the corridor along the railroad from the Great Wall northward to beleaguered Mukden. Moreover, along with the capture of Ssuping and Kirin, the Communists gained control over the entire Manchurian railroad system except the junctions at Changchun and Mukden. The Communists are rushing through repairs on the newly acquired lines. When completed, this added rail support may permit the employment of a new strategic plan, following more orthodox lines and perhaps even involving a direct assault upon Mukden. At least the possession and operation of these lines will lend a more extensive logistic backing, greater mobility over broader areas, and greater striking power to the currently developing Communist attack in Manchuria.

Communist military activity in North and Central China has been more limited in character and of a diversionary pattern. Here, Communist operations still follow guerrilla tactics of mobility over a broad area, of harassing communications with occasional feints or attacks on important points withdrawing in the face of Nationalist pressure. These tactics keep the Nationalist forces off balance and occupy a disproportionately large number of Nationalist troops. In view of the Nationalist shortage of reserves, this does not allow the release of units to reinforce other fronts without losing

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

the areas from which those troops are withdrawn. A case in point recently occurred in Shantung Province where the gains of a fairly successful Nationalist offensive have been all but completely nullified by the Communists, following the withdrawal of regular Nationalist divisions to meet a growing Communist menace in Manchuria and Central China. Communist activity in widely separate sectors of North, Northwest, and Central China keeps these areas in a constant turmoil with the Nationalists groping to find the main body of the marauding Communists, completely unaware of the direction and timing of the next Communist threat.

d. Foreign Relations.

While the Chinese Communist Party appears to operate independently of Soviet directives, particularly in its internal policy, it has never come into direct conflict with the Soviet party line on any important international issue, and it is unlikely that it would attempt to follow a line of action which the USSR strongly opposed. The extent to which the USSR could exert pressure on the Chinese Communists, for any particular end, such as the negotiation of a compromise peace with the National Government, nevertheless remains undetermined.

Contrary to the terms of the Sino-Soviet Treaty of 1945, the USSR has given its moral support to the Chinese Communists, as opposed to the National Government. Aside from turnovers of captured Japanese arms in Manchuria, and Soviet refusal to permit Nationalist troops to enter Manchuria via Dairen, however, there is a lack of evidence that the Chinese Communists have been assisted by material Soviet aid.

There are increasing indications that during the past several months there has come into existence an international Communist organization for the Far East, in which representatives of the Chinese Communists have participated along with those from other Far Eastern countries and the Soviet Union. If the Chinese Communist Party ever gains control of the National Government it would presumably pursue a foreign policy friendly to and cooperative with the USSR. It is unlikely, however, that the USSR would ever dominate China through the medium of the Chinese Communist Party, as it is able to dominate Eastern European countries through indigenous Communist groups, because of the vast size of China and its disorganization, strong regional tendencies, and the Chinese proclivity for anti-foreignism.

The Chinese Communist Party has become extremely antagonistic to the US; anti-US propaganda has become increasingly vehement. Apart from international Communist hatred for the US, the Chinese Communists associate the US with the maintenance of Chiang Kai-shek's regime. The final passage of the US China aid bill prompted radio broadcast charges that the US was making an investment in the Chinese civil conflict in order to transform China into a US colony; that "American Imperialism" had formally declared war on the Chinese people. Such propaganda conforms with the traditional anti-foreign sentiment among the Chinese and appeals to those who feel that the US, by supporting a corrupt and reactionary regime, is an obstacle to progressive action. In the event that a Communist-dominated regime comes to power in China, its attitude toward the US may be greatly influenced by the actual state of foreign relations between the US and the USSR.

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

4. PROBABLE FUTURE DEVELOPMENTS.

The position of the present National Government is so precarious that its collapse or overthrow may occur at any time. However, it may survive with diminishing power for some time, but soon become only one, and perhaps not the most important of several regimes exercising governmental authority independently in Nationalist China. By the end of this year, the Chinese Communists will have made additional regional gains in Nationalist territory in northeast, north and central China, but most of the major cities probably will remain under Nationalist control as isolated strongholds.

While the US aid program has somewhat lifted morale in National Government circles, many Chinese view the aid program as prolonging the agony of, rather than resolving, the civil war. It is true that the aid bill promises some tangible benefits, such as alleviating the tight foreign exchange position of the Government, financing some needed reconstruction projects, and furnishing indirect military aid, and that these benefits will relieve some of the economic pressure on the National Government. But without marked improvement in the efficiency of government operations, elimination of corruption on high government levels, an increase in the efficiency of the civil service and military establishment, and an earnest attempt to effect reforms which have hitherto been discussed but not implemented, the US aid program will provide only a short-lived respite for the National Government.

As conditions in China continue to deteriorate, the forces of opposition to the present National Government and the leadership of Chiang Kai-shek will gain strength. If these forces of opposition should coalesce, they might become a movement with sufficient military strength and popular support to force the removal of Chiang Kai-shek and take over the National Government. With or without Chiang's overthrow, the most likely prospect is increasing political and military regionalism, and further disintegration of the National Government until it is no longer able to command authority over any but local areas. Rather than passively accept such disintegration, Nationalist civil and military officials will be increasingly inclined toward negotiations with the Chinese Communist Party to end the civil hostilities. This issue may unite the opposition to Chiang Kai-shek who is strongly opposed to compromise, and with whom the Communists are unwilling to negotiate. The Communists would certainly achieve the initial and possibly the ultimate benefits from a negotiated truce or the formation of a coalition government. Although the Communists' problems of economic and political administration preclude immediate realization of a Communist China through military means, uninterrupted continuation of present trends would appear to lead eventually to that end.

The prospects for the present National Government might be altered by much more substantial US economic and military assistance. It is doubtful, however, that even under these circumstances the National Government could score a decisive military victory or completely eliminate the Communist threat from China by military means alone. Furthermore, an extensive aid program would involve considerable risks for the US. The National Government might become increasingly dependent on the US for continuous support. Close foreign supervision would be widely opposed by Chinese,

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

both in Communist and Nationalist territories as compromising Chinese sovereignty. Many Chinese resent US aid on the grounds that it merely prolongs the war and the life of an unpopular and corrupt government. To the extent that US assistance tended to promote the stability of the National Government, such aid might be neutralized by intensified activity on the part of the USSR to strengthen and encourage the Chinese Communists.

From the very long-range view, probably the most significant aspect of the current civil conflict in China is that it is part of a long-term revolution the course of which will be essentially determined by internal or national factors, and only to a limited degree by external pressures from the USSR, US, or any other foreign source. The mass of Chinese people are probably less concerned with the international relations and policies of the Communist or Nationalist regimes than they are with the desire for thoroughgoing changes in the old social and economic patterns. This revolution has been in progress since the middle of the nineteenth century, and its outcome will probably remain undetermined for many years.

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2

SECRET

RECEIVED
1948 JUL 23 16 54
CIG/ORE

RECEIVED
1948 AUG 05 15 16
CIG/ORE

U. S. GOVERNMENT PRINTING OFFICE
2725—S—1948

Declassified and Approved For Release 2013/08/15 : CIA-RDP78-01617A003200210001-2